



HEUBLEIN, INC. ANNUAL REPORT - 1964

HEUBLEIN, INC.

Consolidated Statement of Earned Surplus

Years ended June 30, 1964 and 1963

	1964	1963
Balance at beginning of year	\$13,971,858	\$11,150,848
Net income	5,813,915	5,022,496
	<u>19,785,773</u>	<u>16,173,344</u>
Deduct cash dividends declared —		
\$.60 per share (\$.45 in 1963)	2,893,398	2,201,486
Balance at end of year	<u>\$16,892,375</u>	<u>\$13,971,858</u>

Consolidated Statement of Source and Use of Funds

Years ended June 30, 1964 and 1963

	1964	1963
Sources		
Operations:		
Net income	\$5,813,915	\$ 5,022,496
Charges not requiring funds:		
Depreciation and amortization	1,020,358	889,734
Other	56,058	291,766
Funds provided from operations	<u>6,890,331</u>	<u>6,203,996</u>
Sale of common stock	13,692	243,639
	<u>\$6,904,023</u>	<u>\$6,447,635</u>
Uses		
Cash dividends	\$2,893,398	\$ 2,201,486
Excess of cost of Arrow Liqueurs Corporation over equity in net assets acquired, less minority interest of \$271,511	1,662,623	—
Purchase of treasury stock	1,495,794	597,965
Additions to property, plant and equipment	1,773,581	315,178
Additions to trademarks	558,250	—
Retirement of long-term debt	850,000	777,000
Other	255,950	—
Increase (decrease) in working capital	(2,585,573)	2,556,006
	<u>\$6,904,023</u>	<u>\$6,447,635</u>

See accompanying notes.

HEUBLEIN, INC.

. June 30, 1964 and 1963

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 2,416,875	\$ 2,078,327
Federal income tax	4,128,685	3,606,562
Accrued liabilities:		
Taxes, other than federal income tax	2,548,877	1,989,910
Salaries and wages	1,012,603	779,613
Other	1,613,794	1,274,450
Cash dividends payable	720,834	733,253
Long-term debt due within one year	850,000	777,000
Total current liabilities	13,291,668	11,239,115

Long-term debt due after one year:

4¾% debentures, due January 1, 1977 (Note 2)	2,416,000	3,239,000
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Deferred federal income tax (Note 3)

248,482	153,564
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Equity of minority stockholders in subsidiary company (Note 1)

271,511	—
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Stockholders' equity:

Capital stock:

Cumulative preferred — without par value
500,000 shares authorized and unissued

Common — par value \$1 per share (Note 4):

Authorized — 10,000,000 shares		
Issued — 4,910,561 shares (4,908,750 in 1963)	4,910,561	4,908,750
Paid-in surplus (Note 5)	12,658,590	12,646,709
Earned surplus	16,892,375	13,971,858
	34,461,526	31,527,317

Less: Cost of 105,000 shares of common stock in treasury
(30,400 in 1963)

2,093,759	597,965
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Total stockholders' equity

32,367,767	30,929,352
\$48,595,428	\$45,561,031

See accompanying notes.



JULIE LONDON, STAR OF STAGE, SCREEN AND TELEVISION

WHO MADE THE ORANGE MORE TEMPTING THAN THE APPLE? Smirnoff did it—with the famous Smirnoff Screwdriver, America's most popular vodka drink. It not only *looks* like orange juice, it *tastes* like orange juice. That's because crystal clear Smirnoff, filtered through tons of activated charcoal, blends so perfectly with fruit juice and soft drinks. Just pour a jigger of Smirnoff over ice cubes, fill glass with orange juice and stir. Tempting? It's downright irresistible! And—*it leaves you breathless.*®

Always ask for

Smirnoff
VODKA

I T L E A V E S Y O U B R E A T H L E S S



FILTERED
THROUGH A
"MOUNTAIN"
OF CHARCOAL

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 FREDERICK E. CHAPMAN
Vice Chairman
 MARY G. FALVEY
 PETER M. FRASER
 RALPH A. HART
President
 ED W. KELLEY
Executive Vice President
 THOMAS D. MANN

JOHN G. MARTIN
Chairman
 WILLIAM H. MORTENSEN
 FRANCES HEUBLEIN O'DELL
 JOSEPH A. PROCHASKA
 RICHARD RAPPORT
 LESTER E. SHIPPEE
 J. HAROLD WILLIAMS

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 PETER M. FRASER
 RALPH A. HART

JOHN G. MARTIN
 WILLIAM H. MORTENSEN
 LESTER E. SHIPPEE

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President
 RALPH A. HART
Executive Vice President
 ED W. KELLEY

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 GERSON K. BERNSTEIN
 CHRISTOPHER W. CARRIUOLO
 THOMAS McMASTER
 JOSEPH A. PROCHASKA

Vice Presidents
 GEORGE W. E. BALDWIN
 WILLIAM E. BEHRMAN
 PAUL R. DOHL
 WILLIAM A. KILBY
 EDWARD F. MURPHY
 RICHARD F. NELSON
 FRED R. NYE
 DR. JOHN B. REHM
 JOHN M. TYSON, JR.

Secretary
 MARY G. FALVEY

Treasurer
 JOHN A. HENRY

Controller
 JOHN J. MORAN

Assistant Secretaries
 LEO FACCIOLA
 CHARLES E. KARL
 GRAHAM K. MUIRHEAD
 HENRY J. ROGERS

Assistant Controller
 JOHN P. WILLIS

TRANSFER AGENTS

THE BANK OF NEW YORK
 48 WALL STREET
 NEW YORK 15, NEW YORK

CONTINENTAL ILLINOIS NATIONAL
 BANK AND TRUST CO. OF CHICAGO
 231 SO. LA SALLE STREET
 CHICAGO 90, ILLINOIS

REGISTRARS

MORGAN GUARANTY TRUST CO.
 OF NEW YORK
 23 WALL STREET
 NEW YORK 8, NEW YORK

THE NORTHERN TRUST COMPANY
 50 SO. LA SALLE STREET
 CHICAGO 90, ILLINOIS

Heublein Highlights

	1964	1963
Net sales	\$135,848,285	\$121,994,885
Income before income taxes	12,329,515	10,852,496
Income taxes — federal and state	6,515,600	5,830,000
Net income	5,813,915	5,022,496
Per share	1.21	1.03
Cash dividends — per share60	.45
Working capital	24,305,631	26,891,204
Long-term debt	2,416,000	3,239,000
Stockholders' equity	32,367,767	30,929,352
Per share	6.74	6.34
Number of stockholders at June 30	11,440	11,647

To Our Stockholders

We are pleased to report that for the fifth consecutive year the Company has established new records in sales and earnings. Net sales for fiscal 1964 totaled \$135,848,285, up from \$121,994,885, a gain of more than 11 percent over the previous year. Even more significant was the 15.8 percent increase in our earnings, these rising to \$5,813,915, or \$1.21 per share, in 1964 from \$5,022,496, or \$1.03 per share, in the previous fiscal year. This gain was largely brought about by more effective advertising and sales efforts.

The sales and earnings figures also reflect the performance of Arrow Liqueurs Corporation, our newest acquisition, for the last quarter of our fiscal year.

The Company's leading product, Smirnoff Vodka, continued its dominance of the fast-growing vodka market.

Smirnoff today outsells any brand of scotch or gin, its sales surpassing the leading brand of scotch by nearly two-to-one. Even though Smirnoff stands alone in its quality price range, the brand accounts for 23 percent of all vodka consumed. The combined sales of Smirnoff and the Company's two other vodkas, Relska and Popov, give Heublein nearly one-third of the total U.S. vodka market.

A major reason for Smirnoff's leading position in the vodka market, in addition to its unmatched quality, is the character and power of its advertising. Of the nearly \$15,000,000 budgeted for fiscal 1964 for Heublein marketing, the allocation for Smirnoff was over \$6,000,000, with approximately \$1,000,000 spent in June alone. The June Smirnoff Screwdriver campaign was the most extensive promotion ever carried out in the industry during a single

period on behalf of a single product. The sales results achieved were most gratifying.

We should like to point out, too, that because vodka doesn't have to be aged, we can meet the increased demand for our vodka products without maintaining heavy inventories. As a result, our return on invested capital — more than 16 percent — is by far the highest of any large company in the liquor industry.

Heublein Food Division sales again made significant gains during the year, increasing the Division's profit contribution to the Company. New sales records were set by A.1. Steak Sauce, now the country's largest selling meat sauce. A large measure of A.1.'s continued sales climb is attributable to increased marketing efforts and the addition of a new larger family size in a few selected markets.

How our International Division significantly increased its contribution to Company profit is outlined on page 6 of this report.

We continued efforts to broaden our product mix for both our food and liquor lines. This resulted during the past year in additions to our domestic product line as well as to our lines of imported products. In the latter category, we are now the U.S. importers of Irish Mist Liqueur, Tullamore Dew Irish Whiskies, and Byrrh cocktail wine, the world renowned French aperitif. Improvements and additions made in our domestic food and liquor lines include introduction in test markets of Milshire Charcoal Filtered Gin; the Heublein 11-to-1 Vodka Martini has achieved national distribution, and three domestically manufactured Escoffier Sauces: Diable, Robert, and Melba are currently being introduced nationally. Other products are at various stages of develop-

ment and testing, from the laboratory to the consumer, and will be announced individually as each meets Company standards of quality for production and marketing.

Under our acquisition program, the Company, on April 2, 1964, assumed control for cash, of the Arrow Liqueurs Corporation, a 30-year-old Detroit-based company, which in calendar year 1963 attained more than \$15,000,000 in gross sales with a net profit of nearly \$450,000.

Arrow products have potentials commensurate with those of our own product line, are compatible to Heublein channels of distribution and marketing, and have an adequate gross profit to allow for advertising and merchandising. A further benefit to Heublein as a result of the Arrow acquisition is the addition of Arrow's President, Thomas McMaster, to Heublein management as a Senior Vice President.

The Company enjoys a splendid position to finance future development and acquisition from its cash and investment portfolio and unissued stock.

The Company plans to begin construction during the fall of 1964 of a plant at Detroit, Michigan. The new facility will be utilized to produce Arrow products, giving this line greatly needed additional capacity, and will also be used to produce major items of the Heublein liquor product line.

During the year a 25,000-square-foot addition to the Hartford headquarters was completed. This provides needed additional office space for existing functions as well as space for future growth.

To strengthen our management team as we continue our growth and expansion, the Company, during the year, was fortunate in securing the services of Ed W. Kelley, previously a top executive with General Foods, who joined Heublein as Executive Vice President. We were also pleased to announce the election of Chris W. Carriuolo as Senior Vice President, Liquor Marketing, with William W. Behrman and Edward F. Murphy elected Vice Presidents, Liquor Open State Sales, and Liquor Import Sales, respectively.

These men, the other members of the management team, and the men and women who supported them in attaining Company objectives, are the Company's most valuable resource. We thank all the people of Heublein, whose consistently fine work during the year is the basis for the many accomplishments of the Company.

We look forward with confidence to the Company's future growth, the opportunities, and the varied challenges the future will bring. Never before have the opportunities been so inspiring and never before have Heublein people been pursuing them more vigorously.

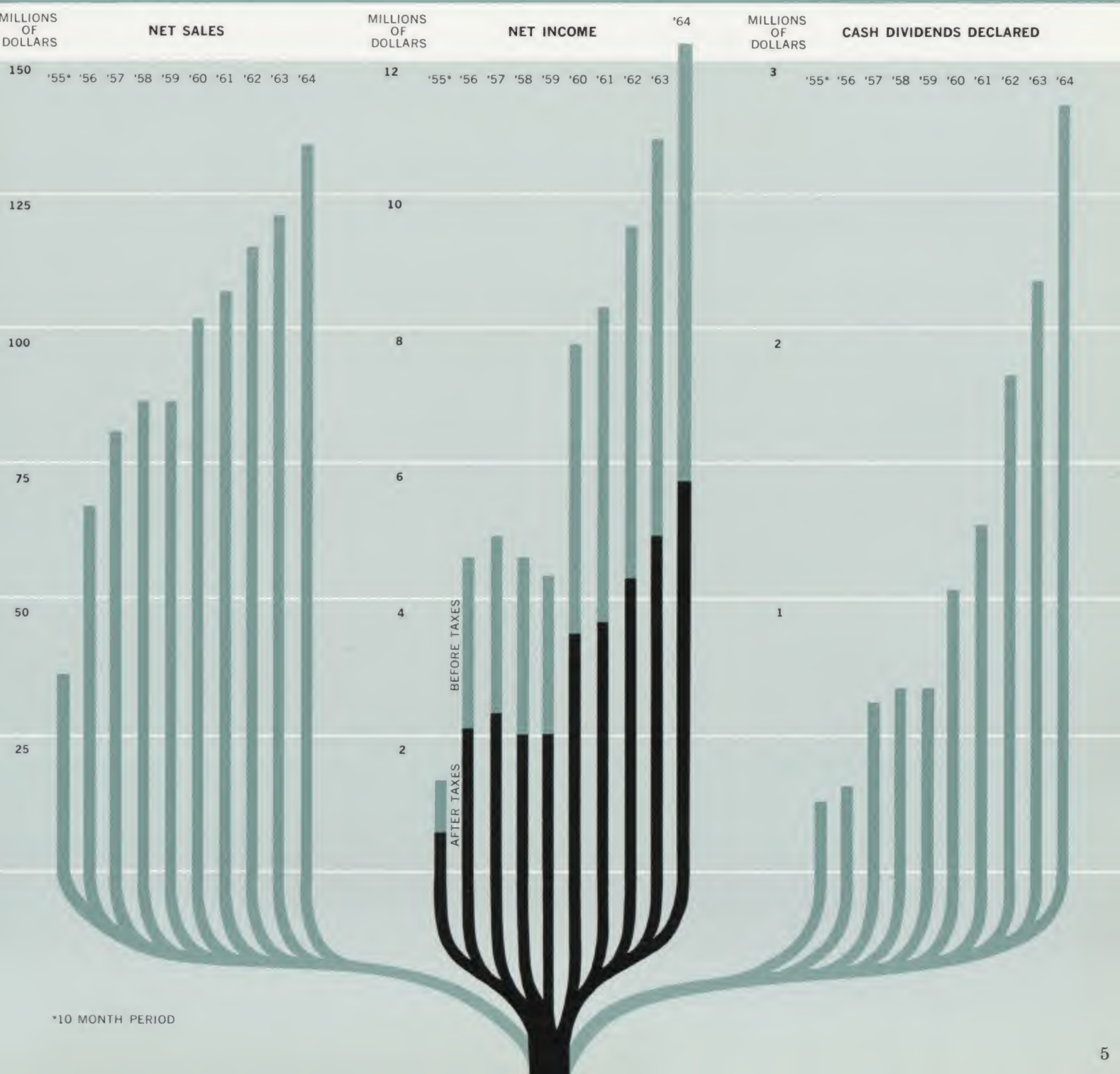


Chairman



President

HEUBLEIN, INC.



*10 MONTH PERIOD



Heublein International

With Heublein products now sold all over the free world, the International Division has become the fastest growing segment of our business. During the fiscal year just ended, export sales climbed to \$1,066,651, exceeding by 24 percent the \$860,563 achieved the year before. Sales and royalties from licensees contributed \$678,413 in net pre-tax profits to the Company for the year, a 36 percent increase over profits during the 1962-63 period. In the past five years, export sales have increased 96 percent, royalties 195 percent, and profits 226 percent.

We are currently producing Smirnoff Vodka through licensees in 25 countries. By the end of this year, we expect to be in 30 countries, with new production facilities planned for El Salvador, the Bahamas, Uruguay, Denmark and Austria.

We expect to sell more than 750,000 cases of Smirnoff abroad this year, and projections for 1965-66 anticipate the sale of one million cases.

These projections are based on marketing statistics which indicate a rapid rise abroad of Smirnoff parallel to United States consumption experience, which has shown that where Smirnoff has been sold longest it is strongest.

As stated in last year's annual report Smirnoff per capita consumption in Scotland is greater than Smirnoff per capita consumption in the United States. This year, Scotland's Smirnoff sales showed a further increase of 22 percent.

In addition, Smirnoff sales have been accelerating in country after country. New Zealand, South Africa, Spain, and Ireland are splendid examples.

Six years ago in New Zealand, for instance, 500 cases of *all* vodka brands were sold. During the 1963 calendar year 20,000 cases of Smirnoff alone were sold in this nation with a population of only 2,300,000.

During comparable periods, Smirnoff sales in Ireland and South Africa increased by 129 and 122 percent, respectively.

While Smirnoff sales are pyramiding abroad, other Heublein products — Heublein Bottled Cocktails, Milshire Gin and Heublein Cordials — are marketed abroad on direct export and are showing strong sales increases.

The continued rapid growth of Heublein's international operations uniquely establishes Heublein as the American food and liquor company whose brands continually enjoy greater world-wide acceptance every year.

Martini drinkers of the world, arise!



The 11-to-1 Martini is here!

11 parts Smirnoff vodka to one part Heublein vermouth...you wouldn't want it dryer! Couldn't get it smoother! And you pour it right from the bottle!

(ALL THE LIQUOR'S IN IT. NOTHING TO ADD BUT ICE)



It's another full-strength
HEUBLEIN COCKTAIL
Better cocktails than most people make

11-TO-1 VODKA MARTINIS, 75 PROOF; EXTRA DRY GIN MARTINIS, 67.5 PROOF; MANHATTANS, 55 PROOF; DAIQUIRIS, 52.5 PROOF; WHISKEY

SOURS, GIN OR VODKA SOURS, 52.5 PROOF; SCOTCH SOURS, 40 PROOF; OLD FASHIONEDS, 62 PROOF; SIDE CARS, 52.5 PROOF; STINGERS, 50 PROOF. THE COCKTAILS SERVED ON LEADING RAILROADS AND AIRLINES. ©HEUBLEIN, INC., HARTFORD, CONN., 1964.

Heublein Food Products

Arrow Liqueurs Products



Holiday Gift Packages



HEUBLEIN, INC.

Consolidated Statement of Income

Years ended June 30, 1964 and 1963

	1964	1963
Net sales	\$135,848,285	\$121,994,885
Cost of sales	99,574,843	89,499,769
Gross profit	<u>36,273,442</u>	<u>32,495,116</u>
Expenses:		
Selling and advertising	20,476,860	18,271,413
Administrative and general	3,484,657	3,709,848
	<u>23,961,517</u>	<u>21,981,261</u>
	<u>12,311,925</u>	<u>10,513,855</u>
Other income (deductions):		
Interest expense	(208,733)	(207,976)
Interest income	268,681	239,661
Gain on sale of property and business	—	347,001
Miscellaneous — net	(42,358)	(40,045)
	<u>17,590</u>	<u>338,641</u>
	<u>12,329,515</u>	<u>10,852,496</u>
Provision for income taxes:		
State	543,000	515,000
Federal	5,972,600	5,315,000
	<u>6,515,600</u>	<u>5,830,000</u>
Net income	<u>\$5,813,915</u>	<u>\$5,022,496</u>

Provision for depreciation charged to income —
1964, \$856,420; 1963, \$866,128.

See accompanying notes.

HEUBLEIN, INC.

Consolidated Balance Sheet

ASSETS

Current assets:

	1964	1963
Cash, including time deposits of \$1,750,000 (\$6,000,000 in 1963)	\$ 5,106,551	\$ 8,743,983
Marketable securities, at cost (approximately market)	—	1,000,000
Investment in whiskey certificates, at the lower of cost or market	150,336	1,068,504
Accounts and notes receivable, less allowance for doubtful accounts	18,668,496	17,834,760
Inventories, at lower of cost (generally first-in, first-out) or market:		
Finished products	6,342,489	4,044,503
Products in process	636,678	798,345
Raw materials	5,223,520	3,486,414
Supplies	1,144,672	797,817
Prepaid expenses	324,557	355,993
Total current assets	37,597,299	38,130,319

Property, plant and equipment, at cost:

Land	622,302	362,693
Buildings	5,959,246	5,023,488
Machinery and equipment	7,260,171	6,353,747
	13,841,719	11,739,928

Less accumulated depreciation 6,503,046 5,376,785

Net property, plant and equipment **7,338,673** **6,363,143**

Deferred charges and other assets **1,349,050** **642,656**

Goodwill, less amortization (Note 1) **2,310,406** **424,913**
\$48,595,428 **\$45,561,031**

See accompanying notes.

Notes to Consolidated Financial Statements

Note 1 — Acquisition of Arrow Liqueurs Corporation: Effective April 2, 1964, the Company acquired, for cash, 93.3% of the outstanding common stock of Arrow Liqueurs Corporation. The accounts of Arrow have been included in the consolidated financial statements since the date of acquisition; net sales and net income so included being \$4,186,804 and \$65,444, respectively. Income applicable to the minority interest was not material. The cost of the stock exceeded the equity in net assets, as shown by the consolidated balance sheet of Arrow, by \$1,934,134 at the date of acquisition. This amount has been charged to "Goodwill" in the Company's consolidated balance sheet and is being amortized over 20 years.

Note 2 — Long-term debt: On January 1 of each year, the Company is required to redeem \$375,000 principal amount of the 4¾% debentures and an additional amount equal to 10% of the excess of consolidated net income (as defined in the indenture) for the preceding fiscal year over \$1,000,000.

Note 3 — Deferred federal income tax: The amounts of deferred federal income tax relate to the excess of depreciation for federal income tax purposes over depreciation provided for financial statement purposes.

Note 4 — Stock options: Under the Company's "Restricted Stock Option Plan" adopted in 1958 and amended in 1961, options could be granted to officers and key employees to purchase shares of the Company's common stock at prices not less than 95% of the fair market value. The Plan provides that the term of any option may not exceed ten years and that options may not become exercisable earlier than one year after date of grant. Options granted after December 31, 1963 meet the qualified stock option requirements of the Revenue Act of 1964.

Options for the purchase of 186,742 shares were outstanding at June 30, 1964 (134,303 a year earlier) at prices ranging from \$17.95 to \$23.63 per share and averaging \$18.95 per share. Options relating to 110,476 shares at prices ranging from \$17.95 to \$23.63 per share were exercisable at June 30, 1964. During the fiscal year 1964, options for the purchase of 55,000 shares were granted, options for the purchase of 750 shares were terminated and options for the purchase of 1,811 shares were exercised at an average price of \$7.56 per share. There were 236,460 shares at June 30, 1963 and 182,210 shares at June 30, 1964 available for grant under the Plan.

The above information regarding number of shares and option prices has been adjusted as appropriate for stock splits and dividends.

Note 5 — Paid-in surplus: The increase of \$11,881 in paid-in surplus represents the excess of option price over par value of common stock issued on exercise of stock options.

Report of Certified Public Accountants

The Board of Directors and Stockholders,
Heublein, Inc.:

We have examined the accompanying consolidated balance sheet of Heublein, Inc. and subsidiaries at June 30, 1964 and the related consolidated statements of income, earned surplus and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. and subsidiaries at June 30, 1964, the consolidated results of their operations and the source and use of their consolidated funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.
August 14, 1964

HEUBLEIN, INC.

Five Year Consolidated Financial Position at June 30

Current assets:	1964	1963	1962	1961	1960
Cash	\$ 3,356,551	\$ 2,743,983	\$ 3,163,892	\$ 3,169,339	\$ 3,924,952
Time deposits	1,750,000	6,000,000	3,500,000	—	—
Marketable securities	—	1,000,000	1,700,000	2,490,556	4,883,335
Investment in whiskey certificates	150,336	1,068,504	1,068,504	592,862	592,862
Accounts and notes receivable	18,668,496	17,834,760	14,976,925	14,047,753	12,426,254
Inventories	13,347,359	9,127,079	9,659,027	10,248,922	8,268,826
Prepaid expenses	324,557	355,993	411,025	430,683	382,410
Total current assets	37,597,299	38,130,319	34,479,373	30,980,115	30,478,639
Current liabilities:					
Accounts payable	2,416,875	2,078,327	2,197,506	2,173,418	1,932,748
Federal income tax	4,128,685	3,606,562	3,089,515	2,431,371	2,856,803
Accrued liabilities	5,175,274	4,043,973	3,659,181	2,770,947	2,687,894
Cash dividends payable	720,834	733,253	481,973	386,874	299,093
Long-term debt due within one year	850,000	777,000	716,000	656,000	631,000
Total current liabilities	13,291,668	11,239,115	10,144,175	8,418,610	8,407,538
Working capital	24,305,631	26,891,204	24,335,198	22,561,505	22,071,101
Property, plant and equipment — net	7,338,673	6,363,143	7,032,483	6,677,422	5,792,814
Deferred charges, other assets and goodwill	3,659,456	1,067,569	1,151,693	1,185,206	416,400
	35,303,760	34,321,916	32,519,374	30,424,133	28,280,315
Deduct: Long-term debt due after one year	2,416,000	3,239,000	4,016,000	4,732,000	5,388,000
Deferred federal income tax	248,482	153,564	40,706	—	—
Minority interest	271,511	—	—	—	—
Stockholders' equity	\$32,367,767	\$30,929,352	\$28,462,668	\$25,692,133	\$22,892,315
Per share of common stock outstanding at end of year	\$6.74	\$6.34	\$5.85	\$5.33	\$4.78

HEUBLEIN, INC.

Five Year Consolidated Results of Operations For Years Ended June 30

	1964	1963	1962	1961	1960
Net sales	\$135,848,285	\$121,994,885	\$116,141,949	\$108,281,236	\$103,168,562
Cost of sales	99,574,843	89,499,769	85,792,834	80,418,739	78,028,396
Gross profit	<u>36,273,442</u>	<u>32,495,116</u>	<u>30,349,115</u>	<u>27,862,497</u>	<u>25,140,166</u>
Expenses:					
Selling and advertising	20,476,860	18,271,413	16,444,295	16,088,635	14,276,394
Administrative and general	3,484,657	3,709,848	4,110,553	3,204,579	2,783,463
	<u>23,961,517</u>	<u>21,981,261</u>	<u>20,554,848</u>	<u>19,293,214</u>	<u>17,059,857</u>
	<u>12,311,925</u>	<u>10,513,855</u>	<u>9,794,267</u>	<u>8,569,283</u>	<u>8,080,309</u>
Other deductions (income):					
Interest expense	208,733	207,976	241,072	272,518	317,528
Interest income	(268,681)	(239,661)	(124,015)	(114,515)	(109,441)
Miscellaneous — net	42,358	(306,956)	81,741	9,870	84,562
	<u>(17,590)</u>	<u>(338,641)</u>	<u>198,798</u>	<u>167,873</u>	<u>292,649</u>
	<u>12,329,515</u>	<u>10,852,496</u>	<u>9,595,469</u>	<u>8,401,410</u>	<u>7,787,660</u>
State and federal income taxes	6,515,600	5,830,000	5,188,000	4,587,000	4,232,000
Net income	<u>\$5,813,915</u>	<u>\$5,022,496</u>	<u>\$4,407,469</u>	<u>\$3,814,410</u>	<u>\$3,555,660</u>
Number of shares of common stock outstanding at end of year (Note)	4,805,561	4,878,350	4,864,702	4,820,158	4,793,947
Net income per share (Note)	\$1.21	\$1.03	\$.91	\$.79	\$.74
Dividends declared per share:					
Cash (Note)60	.45	.38	.27	.22
Stock	—	—	1%	3%	3%

NOTE: Adjusted as appropriate to give retroactive effect to stock dividends and stock splits.

